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SUBJECT: PANAMA: INPUT FOR 2007 CBERA OPERATION REPORT -
PART 2 OF 2

REF: STATE 143212

11. (U) SUMMARY. Below is Part 2 of 2 of Post's report on Panama's current performance with respect to the Caribbean Basin Economic Recovery Act (CBERA), as amended by the Caribbean Basin Trade Partnership Act (CBTPA). Part 1 responds to the questions set forth in reftel paragraph 6. Part 2 responds to the questions set forth in reftel paragraph 7. Panama appears to be in substantial compliance with respect to CBERA and CBTPA eligibility criteria. END SUMMARY.

RESPONSES TO REFTEL PARA. 7

Nationalization/Expropriation

12. (U) Since the publication of the 2005 CBERA Report, Post is unaware of any nationalization or expropriation of any property held in the name of U.S. citizens.

Arbitral Awards

13. (U) Since the publication of the 2005 Report, Post is unaware of any arbitral awards favoring U.S. citizens which the GOP has actively failed to recognize.

Preferential Treatment to Non-U.S. Products

14. (U) Post is unaware of any preferential treatment afforded by the GOP to any developed country, other than the U.S., which has had, or is likely to have, an adverse effect on U.S. commerce.

Broadcast of Copyrighted Material

15. (U) Post is unaware of any broadcast by GOP-held entities of copyrighted material belonging to U.S. copyright holders without such holders' express consent.

Extradition of U.S. Citizens

16. (U) The GOP and USG are signatories to an extradition treaty, dated May 25, 1904 (entered into force May 8, 1905),

which provides for the extradition from Panama to the U.S. of U.S. citizens convicted of crimes.

General Economic Conditions

¶17. (U) Panama is experiencing a period of extended economic growth. GDP growth during the second quarter of 2007 was 9.6% year over year, following 9.4% GDP growth during the first quarter of 2007. GDP growth during 2006 was 8.1%, its fastest growth in 14 years and up from 6.9% GDP growth in ¶2005. The main drivers of growth have been capital investment, port activity, tourism, construction, and goods and services exports. Panama's approximately \$16 billion economy is 76.3% services (principally canal revenues, tourism, re-exports from the Colon Free Zone, port activity and banking); 16.5% is manufacturing and 7.2% is agriculture.

¶18. (U) Unemployment in Panama as of August 2007 had fallen to 7.3 percent, down from 8.7 percent in August 2006. Despite more than 15 years of continued economic growth, the poverty rate still hovers around 37 percent. Underemployment as of August 2006 was 22.1 percent (most recent available GOP figures). Employers consistently report a lack of skilled labor, in particular a lack of English-speaking workers.

¶19. (U) Traditionally, Panama has experienced slightly lower inflation rates than those in the U.S. However, rising commodity and oil prices caused inflation to rise over the past year, reaching 5.2 percent in September 2007. Inflation during this period was lead by an 8.5 percent increase in food prices. The 51-item "basic basket" of basic food items and cooking gas rose 11.2 percent between August 2006 and August 2007.

¶10. (U) Panama's public sector debt is high compared to countries of similar credit rating. As of July 31, 2007, the public debt was 57.2 percent of GDP versus 61.1 percent as of December 31, 2006. Panama has posted a small budget surplus in 2006, its first in ten years. During the first half of 2007, the GOP posted a non-financial public sector surplus of 0.2 percent of GDP.

¶11. (U) The U.S. goods trade surplus with Panama was \$2.3 billion in 2006, an increase of \$493 million from \$1.8 billion in 2005. U.S. goods exports to Panama were \$2.7 billion, up 25.2 percent from the previous year. Corresponding U.S. imports from Panama were \$378 million, up 15.7 percent. Panama's largest exports to the U.S. are fish and shrimp, none of which received CBI benefits.

¶12. (U) Foreign direct investment (FDI) rose approximately 20 percent during the first half of 2007, reaching \$598 million. Approximately 60% of FDI was concentrated in the Colon Free Zone (\$180.8 million) and the banking sector (\$137.8 million). The stock of U.S. FDI in Panama in 2006 was \$5.73 billion (latest data available), down slightly from \$5.78 billion in ¶2004. U.S. FDI in Panama is concentrated largely in the non-bank holding companies, finance, insurance and wholesale trade sectors.

¶13. (U) Panama is engaged in various large scale infrastructure projects, including the \$5.25 billion expansion of the Panama Canal, the Panama City-Colon highway, and the \$190 million Panama Coastal Thruway.

Equitable and Reasonable Access for U.S. Goods and Services

¶14. (U) Panama and the U.S. signed a Trade Promotion Agreement (TPA) on June 28, 2007. The Panamanian National Assembly ratified the TPA on July 11, 2007 and is awaiting U.S. Congressional action. Under the TPA, 88 percent of U.S. exports of consumer and industrial goods to Panama would become duty-free immediately, with remaining tariffs

phased-out over ten years. The agreement would include "zero-for-zero" immediate duty-free access for key U.S. sectors and products including agricultural and construction equipment, information technology products, medical and scientific equipment, animal genetics, and oilseeds. Other key U.S. export sectors such as motor vehicles and parts, paper and wood products, and chemicals also would obtain significant access to Panama's market as duties are phased-out. The TPA provides for immediate duty-free treatment for more than half of current U.S. agricultural exports to Panama, including high-quality beef, certain pork and poultry products, cotton, wheat, soybeans and soybean meal, most fresh fruits and tree nuts, distilled spirits and wine, and a wide assortment of processed products. The TPA also provides for expanded market access opportunities through tariff-rate quotas (TRQs) for agricultural products such as pork, chicken leg quarters, dairy products, corn, rice, refined corn oil, dried beans, frozen French fries and tomato products. Tariffs on most remaining U.S. agricultural products would be phased out within 15 years.

¶15. (U) On December 20, 2006, the U.S. and Panama signed a far-reaching bilateral agreement on SPS measures and technical standards. See discussion in paragraph 3 above.

¶16. (U) The U.S. is Panama's largest trading partner. During 2006, the U.S. accounted for 22 percent of all imports into Panama. Currently, 70 percent of Panamanian 8-digit tariff rate lines on U.S. exports have base tariff rates greater than zero, 50 percent of U.S. exports to Panama have base tariff rates greater than 5 percent, and 34.5 percent of U.S. exports have base tariff rates in excess of 34.5 percent. These tariff rates apply to all imports and are not directed solely at U.S. exports to Panama.

Export Subsidies

¶17. (U) Panamanian Law 3 of 1986 allows any company to import raw materials or semi-processed goods at a duty of 3 percent for domestic consumption or processing (pending certification that there is no national production), or duty-free for export production, except for sensitive agricultural products, such as rice, dairy, pork, corn and tomato products. Under Law 3 of 1986, companies are allowed a tax deduction of up to 100 percent of their profits from export operations through 2010.

¶18. (U) In the context of its WTO accession, Panama revised its export subsidy policies in 1997-98. See discussion in paragraph 5 of Part 1 of this cable.

¶19. (U) Panama has eight export processing zones (EPZs). The law governing the EPZs grants tax exemptions to companies that fulfill a minimum local value added requirement.

¶20. (U) Under Panama's Official National Industry Registry (ROIN), companies that export all of their production are exempt from import duties, income tax and other domestic taxes. The ROIN was scheduled to be phased out in late 2005, but the deadline for its elimination has been extended through 2007.

¶21. (U) In addition, a number of export industries, such as shrimp farming and tourism, are exempt from paying certain types of taxes and import duties. The government of Panama established this policy to attract foreign investment, especially in economically depressed regions, such as the city of Colon. Companies that profit from these exemptions are not eligible to receive CATs for their exports.

Trade Policies- Revitalization of CBI Region

¶22. (U) The GOP seeks to promote economic growth through increased liberalized trade with countries in the CBI region. The GOP has signed free trade agreements with El Salvador (2003), and has partial bilateral trade agreements with the Dominican Republic (2003) and each Central American country other than Belize. In 2007, Panama signed free trade agreements with Costa Rica and Honduras. Panama is negotiating free trade agreements with Nicaragua, Guatemala, and CARICOM.

Panama's Self-Help Measures

¶23. (U) Upon assuming office in September 2004, the Torrijos Administration established its development and economic strategy known as the "Goals and Objectives for the Government of the New Homeland 2004-2009." The strategy called for increased opportunities for marginalized sectors of society through economic liberalization, public sector restructuring and increased social investment. As part of this strategy, the GOP has enacted reforms to the country's social security system aimed at bolstering its financial stability. Also, the GOP has sought to increase and diversify Panama's exports through target government spending, trade pacts and encouraging increased FDI flows. A crucial element of the strategy has been the \$5.25 billion Panama Canal expansion project aimed at doubling the capacity of the canal. Panama is also engaged in large scale infrastructure projects aimed at easing the country's overburdened transportation infrastructure. The GOP has moved to increase efficiency and transparency in government procurement and facility of opening new businesses by establishing on-line government procurement systems (www.comprapanama.gob.pa) and a one-stop on-line procedure to establish new businesses (www.emprendepanama.gob.pa). To address the lack of skilled labor, the GOP has initiated an \$88 million worker training program.

¶24. (U) Part of the above-referenced strategy was a "zero corruption" platform. To date, despite constant allegations of corruption, the GOP has yet to prosecute any corruption cases resulting in the convictions of high-ranking government officials (past or present) or prominent private sector individuals.

Cooperation with USG on CBERA

¶25. (U) The GOP cooperates with the USG in the administration and implementation of CBERA-related trade. CBERA-related matters are handled by the GOP's Ministry of Industry and Commerce (MICI). Through its "Only Window" program, MICI offers a one-stop office to assist Panamanian exporters on CBERA-related issues and procedures.
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